

THE INFLUENCE OF ASSETS AND CAPITAL TURNOVER ON EARNINGS PER SHARE IN THE COMMERCIAL BANKS IN THE KINGDOM OF BAHRAIN

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ABSTRACT

This study aims at knowing the extent of the influence of the assets turnover, both tangible and non-tangible, as well as the capital turnover rate on the earnings per share in the commercial banks in the Kingdom of Bahrain for the period 2010-2013.

The study concluded that fixed assets are more relevant than capital. The research attributed this fact to the widespread presence of banks in the Kingdom of Bahrain which promotes confidence of clients.

KEYWORDS: Assets Turnover, Capital, Earnings Per Share, Commercial Banks

INTRODUCTION

The financial and banking industry has become an important, tangible actor in the reality of the banking industry which is witnessing growing development, regarding the number of these institutions, the volume of money it manages or the diversity of its activities. Despite the development and success realized by these banking and financial institutions, they still face a lot of challenges which require greater efforts by these institutions to promote the quality of their products, services and diversity in a way that copes with the consecutive developments witnessed all over the world in this industry.

Due to inflation and economic instability, the result was an international financial crisis and the bankruptcy of many American and European banks, and today all the major European countries are exposed to a lot of risks and are on the verge of bankruptcy and will be unable to pay the high interest rates. Both commercial and Islamic banks alike made their way and exerted their efforts, supported by the legal monitoring authorities composed of high-level experts experienced in banking, accounting and administration.

THE RESEARCH PROBLEM

The Kingdom of Bahrain is regarded as a financial center in the Middle East, in competition with the UAE, as the commercial banks in Bahrain are constantly expanding, except during the financial crisis. Since the earnings per share are a significant indicator in the financial performance of the bank, this study was conducted to respond to the following question:

How relevant are the earnings per share for financial performance?

Importance of the Study

This study acquires its importance from addressing a vital sector related to the financial and numerical aspect? for the number of the industrial companies for which shares are being traded.

Objectives of the Research

- What is the relationship between financial performance and the earnings per share in the National Bank of Kuwait?
- What is the philosophical frame work for the concepts of financial analysis and earnings per share?

HYPOTHESIS

- **First Hypothesis:** There are no statistically significant differences between the rates of asset turnover and earnings per share for the National Bank of Bahrain (2010-2013)
- **Second Hypothesis:** There are no statistically significant differences between the rates of capital turnover and earnings per share for the National Bank of Bahrain (2010-2013)

The Concept of Financial Analysis

Financial analysis is closely related to the need of different parties in a certain project to know the economic variables in its work stream within a certain period of time and their evolution in the future, in addition to knowing the historical variables and predicting the future. Financial analysis is used to study the past and compare it to the present in order to predict the future. Thus, in this case it is a subject related to producing the information to help the stakeholders making the decisions related to this project.

Based upon the above, financial analysis was defined in the related literature according to some definitions that differ according to the applicable scientific approach and can be summarized as follows:

- Financial analysis is an organized processing of the available data aiming at getting the information used in the process of decision-making and estimating the performance of the institutions in the past and in the present and predicting performance in the future.
- Financial analysis includes the process of interpreting and understanding the posted financial statements in order to make future decisions.
- The financial statements, are in essence no more than detailed studies for the financial analysis and the relation between them in addition to raising questions regarding their significance in an attempt to explain the reasons that led to the emergence of these data in these forms in a way that helps to discover the strengths and weaknesses of the different financial policies that the project is working on.
- Financial analysis is a process through which a set of operational and financial activities are defined for the project through information extracted from the financial statements and other resources so that such indicators can be used in estimating project performance that aims at making appropriate decisions” (AlHayali, 2005, p.22).

Definition of Financial Analysis

Financial analysis is a process through which a set of quantitative and qualitative indicators are discovered or derived regarding the activity of an economic project. This process contributes to defining the importance and the characteristics of the operational and financial activities of the project through information extracted from the financial statements and other resources in order to use such indicators in estimating the performance of the facility with the aim of

making decisions. (Matar, 2003. p.3)

Objectives of Financial Analysis

Generally, financial analysis aims at estimating the project from different angles and in a way that serves the information users who have financial interests in the project aiming at defining the strengths and weaknesses then benefiting from the information provided by the financial analysis regarding economizing their financial decisions related to the project (Matar, 2003. p.3).

In general, the objectives of financial analysis can be restricted in the following financial aspects:

- Estimating the profits of the project
- Estimating the financial position of the project
- Estimating the credit position of the project
- Estimating the efficiency of the financing policy
- Estimating the efficiency of asset management and deductions
- Estimating the competitive status of the project
- Estimating the sustainable capacity of the project (financial failure)
- Concluding some indicators that would provide for the management of the planning tools, monitoring and meeting the needs. (Matar, 2003 p.3)

Components of Financial Analysis

In order for the financial analysis process to succeed in achieving its posted goals or objectives, the requirements or conditions that together form the main bases that must be observed should be available. If we consider that the final objective of the financial analyst is to provide actual indicators that would provide an image of the aspects of legal activity that is much closer to reality, then the success factors that would help in achieving this objective must be made available. They would be made available by providing some conditions either related to it, or related to an approach or to the methods or tools of analysis used by the financial analyst, or related to the sources of information that he relies on (Matar, 2003 p.4).

Based upon the above, the main components of financial analysis can be restricted to the following:

- That the information sources from which the financial analyst obtains his information shall enjoy a reasonable amount of reliability or credibility and that the information used in analysis shall be characterized by a balanced amount of objectivity on one hand and suitability on the other hand.
- In his approach to analysis, the financial analyst must adopt a scientific approach that fits the objectives of analysis. He should also use some methods and tools that combine objectivity and suitability for the objectives he seeks in a balanced manner.

The Financial Analyst Shall Meet all of the Stated Requirements and Conditions by Observing the Following

- He should have a general background about the facility, its activity and the industry it belongs to, as well as the economic, social and political environment surrounding it.
- He should demonstrate the hypothesis on which the analysis is made, as well as the quantitative and qualitative variables relevant for the problem under investigation.
- He may not stop as soon as he discovers the strengths and weaknesses of the project activity, for most importantly, he should analyze the reasons and examine future approaches (Matar, 2003 p.4).
- He himself should be characterized by objectivity by focusing on his role which is limited to discovering the facts as they stand before interpreting them in an abstract way free of any personal partiality. This can be made by submitting a report showing the best alternative. (Matar, 2003 p.5).

Financial Rates

“Financial rates appeared in the middle of the 19th century as a tool to help in interpreting and analyzing the contents of the financial reports and statements aiming at serving the investors and other beneficiary parties (creditors, banks, financial accountants) when making their different economic decisions as some indicators appear to help in estimating the performance and judging the efforts of the company in achieving the planned objectives as well as judging the financial position (and its ability to pay off its obligations) either as per the liquidity or per the capital structure of the facility, in addition to helping in predicting the financial position of the facility and its ability to achieve future profits,” (Lotfy, 1998, p.203)

Financial rates can have many definitions including the following:

- A financial rate is a financial analysis tool that provides a measure to a relationship between two items of the financial statements.
- A financial rate is the existing relationship between one or more items and another item. This relationship can take the form of a percentage, or a simple or decimal fraction.

Categorization of the Financial Rates

“Financial rates can be categorized according to different and various bases. They might be categorized according to the information source on which the rates are composed or according to the aim of analysis or according to the economic activities of the project” (Khanfar et al. 2011, p.128).

First: Financial Rates Categorized according to the Information Sources

It is the categorization upon which the rates are divided into three parts:

- **Income Statement Rates:** The rates in which the numerator and denominator are composed of the items of the income statement such as the total profit rate to the sales rate, or the operation al expenses to sales, etc.
- **Financial Position Rates:** The rates in which items are composed of the items of the financial position statement

as shown in the rate of the current assets to the rate of the current liabilities, etc.

- **Mixed Rates:** The rates items are both composed of financial statement items (income and financial position) such as the net profit rate to the ownership rights and the net sales rate to the total assets” (Al-Zobaidy, 2000, p.162)

Second: Financial Rates Categorized according to the Analysis Objective

“rates are categorized in this method according to the objectives of the beneficiary party/ies from analysis; it might be categorized as follows:

- **Profit Rate:** Rates that measure the profit and the profitability such as rates of net profit, rate of operational profit to net sales, or total profit rate to net sales.
- **Liquidity Rate:** Rates by which a judgment can be made on the facility’s liquidation and its ability to pay off its short-term debts such as the trading rate and the fast liquidity rate.
- **Market Rate:** The rates which market dealers and stock markets seek to extract with the aim of calculating the available investment options such as the ordinary share return and the share yield.”

Trading Rate

Represents the ability of the facility to meet its current liabilities without any difficulty and as an initial indicator for its financial ability. It is measured by dividing the total current assets to the total current discounts. The result 2:1 was considered the absolute standard for the trading rate as a protection limit. This rate represents as well the extent to which the current asset value of the facility can decrease. It still can pay off its current requirements” (El-rawi, 2000, p.61)

This is the most commonly used rate of liquidity; it is called the working capital net rate. Through this rate, a relationship can be established between the current assets and the current liabilities as the second one is paid off by using the first.

The current assets are composed of cash and other assets that can be converted into cash within one financial term such as short- term investments, accounts receivables, reserve and advance payments”. (Ramadan, 1990, p.77)

“As for the current liabilities, they comes from the dues and debts that the facility shall pay during the same financial term and are composed of: creditors, notes payable, payments due and short- term loans.

Typically the financial analyst judges the indicators of such a rate by comparing it to the typical, acknowledged standard which is (2:1). This standard refers to the necessity that the facility shall keep two dinars at least of the current assets for each dinar of liabilities, which would help the facilities to pay the short-term debts without affecting the different activities by this kind of payment. Taking into consideration that the current assets do not enjoy the same liquidity, it must be noted however, that the high increase in the trading rate may not necessarily be a positive indicator, it might mean otherwise, or it might mean that cash is being accumulated and the facility is unable to invest it correctly. Moreover, the decrease in such a rate may not necessarily be a negative indicator if the facility’s current assets enjoy a high degree of liquidity.

Perhaps based upon the above we may discover the weaknesses in the trading rates. The rate can be interpreted quantitatively according to the current assets available to cover the current liabilities, while the structure of these assets and

the difference between its liquidity grades are disregarded; thus it is recommended that the indicators resulting from the trading rate should be supported by other indicators such as the quick and cash liquidity rates” (Khanfar, 2011, p.130)

Quick Liquidity Rate

“Many current assets cannot easily be converted into cash that can be used in paying off the debts or the current liabilities. For example, the goods reserve, which is considered less liquid than other current assets and the more exposed to loss in case it is necessary to convert it to cash through liquidation as the reserve normally is converted by the debtors, then it is turned into cash when it is due, as well as the expenses paid in advance thus it can’t be converted into cash, on the contrary, it is used in operation” (Lotfy, 1998, p.214)

“This rate is known as well by being the rate that connects the severe liquidity current assets, which was disregarded by the trading rate, as the monetary liquidity and investments can’t be compared to the liquidity of the reserve, thus the assets can now be categorized to two types: First/ assets that are liquefied rapidly such as (cash, short term investments, accounts receivables with the net amounts). Such assets are characterized by the possibility of converting them into cash rapidly, properly and without any relative losses in its value at conversion. The second type is the slow conversion assets into cash such as (the reserve and in advance payments). These assets need a relatively long time to be converted into cash and it might be exposed to significant loss in its value in case it didn’t take a sufficient time to be liquefied and converted into cash.

The indicators of this rate are governed by the typical criterion (1:1), this criterion assumes the necessity that one dinar at least shall be available from the rapid assets without having to resort to the reserve in order to cover each and every dinar of the current liabilities, and without affecting the operational and ordinary activities in the facility by this payment” (Ramadan, 1990, p/80).

As is the case regarding the trading rate, achieving the typical standard for this rate may not necessarily be a good indicator for the liquidity of the facility as the conversion process of some rapid assets (such as creditors and notes payable) into cash may be exposed to some hindrances such as the fact that the accounts might not be profitable or might be doubtful. In the same context, the decrease of this rate below the typical standard might not necessarily mean weak liquidity in the facility for the effective management and nature of the reserve might enable the facility to achieve high liquidity for the project. Despite the weaknesses in the rapid liquidity rate, it is still a better measure to judge liquidity than the trading rate” (Khanfar, 2011, p.132).

Study Analysis

Year	Asset Turnover Rate	Capital Turnover Rate	Profit Per Share
2011	3.678%	172.687%	52.6fils
2012	4.247%	188.102%	53.4fils
2013	4.017%	174.357%	55.5fils

First Hypothesis

There are no statistically significant differences between the rates of asset turnover and the share profit of the National Bank of Bahrain for the period of 2010-2013.

To validate the hypothesis of the first study, the arithmetic averages and the standard deviations of the asset turnover rate and the share profit have been calculated. It is shown in the outcomes of table (1) that the arithmetic average of the National Bank of Kuwait estimated at 3.96 exceeds the average of the share profit rates estimated at 0.945. To make sure of the significance of these differences, independent sample T tests were used. Table (1) shows the outcomes of analysis.

Based upon the outcomes of the analysis shown in the above table that there are statistically significant between the average assets turnover in the National bank of Bahrain as the T-value is 0.121 which is statistically significant, and we reject the zero hypotheses because the bank has given loans during this period.

Second Hypothesis

There are no statistically significant differences between the rates of asset turnover and the share profit of the National Bank of Bahrain for the period of 2010-2013.

To validate the hypothesis of the first study, the arithmetic averages and the standard deviations of the asset turnover rate and the share profit have been calculated. It is shown in the outcomes of table (2) that the arithmetic average of the National Bank of Kuwait estimated at 3.96 exceeds the average of the share profit rates estimated at 0.945. To make sure of the significance of these differences, independent Sample T tests were used. Table no.2 shows the outcomes of the analysis.

Based upon the outcomes of the analysis shown in the above table, there is a statistical significance between the average assets turnover of the National Bank of Bahrain as the T-value is 1.65 which is statistically significant, and we reject the zero hypothesis because the bank has provided loans during this period.

CONCLUSIONS

To validate the hypothesis of the first study, the arithmetic averages and the standard deviations of the asset turnover rate and the share profit have been calculated. It is shown in the outcomes of table (1) that the arithmetic average of the National Bank of Kuwait estimated at 3.96 exceeds the average of the share profit rates estimated at 0.945. To make sure of the significance of these differences, independent sample T tests were used. Table (1) shows the outcomes of analysis

Based upon the outcomes of the analysis shown in the above table, there is a statistical significance between the average assets turnover of the National Bank of Bahrain as the T-value is 1.65 which is statistically significant, and we reject the zero hypothesis because the bank has provided loans during this period.

RECOMMENDATIONS

- The necessity for the banks to take care of tangible and non-tangible assets because they inspire confidence in clients by increasing the number of branches in the Kingdom.
- The Bank should give priority to the capital turnover rate to contribute in making profits by increasing capital and not requiring too much collateral when providing loans.

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APPENDICES

Table 1: Arithmetic Averages, Standard Deviations, and T-Value for the Significance of Differences between the Asset Turnover Rate and the Share Profit in the National Bank of Bahrain (2010-2013)

Rate	Asset Turnover Rate		Share Profit		T-Value	Significance
	Arithmetic Average	Standard Deviation	Arithmetic Average	Standard Deviation		
	3.96		0.945	0.136		

Table 2: Arithmetic Average, Standard Deviation, and T-Value for the Significance of Differences between the Asset Turnover Rate and the Share Profit in the National Bank of Bahrain (2010-2013)

Rate	Asset Turnover Rate		Share Profit		T-Value	Significance
	Arithmetic Average	Standard Deviation	Arithmetic Average	Standard Deviation		
	168.43	21.07	0.945	0.136	1.65	0.239

